



Investment Office

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AGENDA ITEM 3b

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Review and Recommendations regarding Asset Allocation
- II. PROGRAM:** Total Fund
- III. RECOMMENDATION:** Adopt new Asset Allocation ranges as follows, and direct staff to conduct an Asset Allocation Review in the first half of 2009.

Asset Class	Policy Target	Policy Range	New Policy Range
Global Equities (GE)	56%	+/- 5%	+/- 15%
AIM	10%	+/- 3%	+/- 8%
Total Equities	66%	+/- 5%	+/- 15%
Global Fixed Income (GFI)	19%	+/- 5%	+/- 15%
Inflation-Linked Assets (ILAC)	5%	0% - 5%	0% - 5%
Total GFI + ILAC	24%	+/- 5%	+/- 15%
Real Estate	10%	+/- 3%	+/- 5%
Cash	0%	0%-2%	0%-10%
Total	100%	-	-

The proposed ranges are temporary and will be valid until a review of the asset allocation is conducted in 2009.

IV. ANALYSIS:

Staff reviewed the current allocation relative to policy at the Committee meetings in October and November 2008 in light of the allocations being outside of policy ranges for Global Equity (GE), AIM and cash. As previously discussed, the sharp decline in global equity markets caused the GE allocation to fall below the minimum of the policy range. Additionally, cash was raised by selling equities to meet part of the liquidity needs of the fund. This has resulted in a cash allocation of 8.6% relative to a 0% target. A cash allocation will be required on a longer term basis to prudently manage the fund's liquidity needs. The AIM allocation is above the maximum of the policy range due to a decline in the total fund and is likely to stay above the current maximum based on projections.

Because of the significant deviation of asset class weights from policy targets the total fund return will have significant tracking error relative to the return of the policy benchmark, and in today's environment there is limited flexibility to manage the asset allocation relative to existing policy targets and ranges. Hence Staff, after numerous internal discussions and with input from the Board's consultants recommends new policy ranges on a temporary basis. Staff believes it is well advised to review the strategic asset allocation adopted in December 2007.

The table below reflects actual and policy weights and ranges for each asset class as of October 31, 2008.

10/31/08	GE	AIM*	GE/AIM combined	GFI*	RE	ILAC*	Cash
Policy Targets	56.0%	9.5%	65.5%	22.5%	10.0%	2.0%	0%
Actual	41.9%	13.8%	55.7%	21.7%	11.6%	2.4%	8.6%
Difference	(14.1%)	4.3%	(9.8%)	(0.8%)	1.6%	0.4%	8.6%
Range	+/- 5%	+/- 3%	+/- 5%	+/- 5%	+/- 3%	0% - 5%	-

*Targets for AIM, GFI and ILAC are interim Q3 targets.

Staff considered two other options:

- A) Policy allocation to be equal to the actual allocation at prior month-end and varied on a monthly basis until asset allocation review.

This approach will minimize the tracking error in total fund returns relative to policy benchmarks, but will have no constraints on the actual allocation.

- B) Adopt new policy targets and ranges based on higher AIM target, lower GE target and a new cash target.

This approach changes policy targets and ranges on a short-term basis without a robust process. This is not meaningful if an asset allocation is planned in 2009.

In view of the above staff recommends widening the ranges around existing policy targets as proposed.

Letters from Wilshire and PCA are included as Attachments 1 and 2.

V. STRATEGIC PLAN:

This item addresses Strategic Plan Goals VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions; and IX, achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

The cost of implementing any of the three alternatives would not be material. If no changes in policy allocations are approved, the costs of bringing actual allocations to within policy ranges would be substantial.

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